

Recreation Authority of Roseville and Eastpointe

**Financial Report
with Supplemental Information
June 30, 2012**

Recreation Authority of Roseville and Eastpointe

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Recreational Authority of Roseville and Eastpointe
18185 Sycamore Roseville, Michigan 48066

December 18, 2012

To the Board of Trustees, Residents of the
Roseville and Eastpointe Authority Community

Letter of Transmittal

We are submitting herewith the Financial Report of the Recreational Authority of Roseville and Eastpointe (the "Authority") for the six-month period ended June 30, 2012. It is the responsibility of Authority management to present fairly, with full disclosure and in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the Authority's funds. The Annual Financial Report contains necessary disclosures useful in providing an understanding of the individual fund and full accrual financial statements. Pursuant to that requirement, we hereby issue the annual financial report of the Roseville and Eastpointe Authority for the six-month period ended June 30, 2012. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management.

To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the funds and of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's activities have been included.

Plante & Moran, PLLC has issued an unqualified "clean" opinion on the Authority's financial statements for the year ended June 30, 2012. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (the "MD&A") immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

State law requires that all local governmental units, including authorities such as the Authority, publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

The Authority is a special district form of government operating independently of all other governmental agencies. It provides a full range of recreational activities to the residents of Roseville and Eastpointe. The purpose of the Authority is to provide recreational services, construct, operate, maintain and/or improve recreational facilities, included but not limited to parks, swimming pools, recreation centers, auditoriums and any other facilities authorized by Section 5 of Act 321 of the State of Michigan.

Governmental Structure, Local Economic Condition And Outlook

The Authority was sanctioned by Public Act 321 of as a metropolitan district for planning, promoting, and/or acquiring, constructing, owning, developing, maintaining and operating, either within or without their limits, parks, connecting drives and/or limited access highways; and to provide for the assessment, levy and collection of property taxes on both real and personal properties located within its boundaries. A referendum was held on November 8, 2011 on the proposed Authority. The citizens of the cities of Roseville and Eastpointe approved the creation of a one mill levy for a period of 20 years for Authority operations.

The governing body of the Authority is a five-member Board of Trustees. Two trustees are appointed the legislative bodies of Roseville and Eastpointe, who then appoint a Trustee at large for terms of three years. Public meetings of the Board of Trustees are held on the second Thursday of each month. The Board of Trustees is responsible, among other things, for setting policy, adopting the budget, setting fees, approving contracts, land acquisition and expenditures, planning of new recreational services facilities and appointing three staff officers Executive Director, Program Director, and Senior Director. Administrative and fiscal management services including accounting, payroll and risk management are provided by agreement from the City of Roseville.

The Director is responsible for carrying out the policies of the Board of Trustees, for overseeing the day-to-day operations of the recreation services system, hiring all employees and approving all purchase commitments of the Authority. The Executive Director is also the Executive Secretary and keeps minutes of all Board of Trustee meetings, is the official custodian of all records of the Authority, coordinates the recording of all property owned by the Authority and certifies all payment vouchers prior to approval by the Board of Trustees. The Controller of Roseville is responsible for maintaining all financial accounting records of the Authority, collecting all revenues due the Authority, investing all Authority funds, issuing payment vouchers for goods, services and payrolls, and maintaining property/casualty insurances under the present agreement between the Authority and the City of Roseville.

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the local economic environment in which the Authority operates.

Regional Profile and Economic Conditions

The Authority encompasses the City of Roseville and the City of Eastpointe and is located near the southeast corner of Macomb County, adjacent to the southern boundary of Macomb County and north of the city of Detroit. Freeway access to the southeast Michigan region is provided by Interstate-94 (I-94) and Interstate-696 (I-696). In addition, regional access is available using the bus system of the Suburban Mobility Authority for Regional Rapid Transit (SMART) system. Roseville and Eastpointe have grown and prospered significantly as two of southeastern Michigan's earliest and strongest suburban communities.

The Authority was created by the municipalities of Roseville and Eastpointe and services the territory of these two established traditional, yet forward thinking, communities. Both the Cities of Roseville and Eastpointe continue to welcome residents, businesses, and visitors alike to enjoy vibrant and diverse community lifestyles. The Authority is ideally located in southeastern Michigan, within Macomb County and proud of the initiative to "Make Macomb Your Home." Roseville and Eastpointe provide a full range of services to residents, visitors, and the business community and are conveniently located for employers and employees alike.

With 60 percent of voters taxing themselves in 2011 with an additional millage of \$1.00 per thousand of taxable value to fund the Authority, it is clear that quality of life and services to young, old and those of special needs is in the community culture of the joint cities. The residents action supporting the initiative to collaborate, and join recreation departments indicates they are willing to pay for and improve their communities and make sure that the "sense of place" in Roseville and Eastpointe is alive and well.

Profile of the Authority territory and Communities Served

Population and Households	Census 2010	Change 2000-2010	Pct Change 2000-2010	SEMCOG Jul 2012	SEMCOG 2040
Total Population	32,442	-1,635	-4.8%	32,260	34,467
Group Quarters Population	21	-58	-73.4%	21	25
Household Population	32,421	-1,577	-4.6%	32,239	34,442
Housing Units	13,796	-169	-1.2%	13,780	-
Households (Occupied Units)	12,557	-1,038	-7.6	12,397	13,687
Residential Vacancy Rate	9.0%	6.3%	-	10.0%	-
Average Household Size					
Population and Households	Census 2010	Change 2000-2010	Pct Change 2000-2010	SEMCOG Jul 2012	SEMCOG 2040
Total Population	47,299	-830	-1.7%	47,043	45,263
Group Quarters Population	245	61	33.2%	245	228
Household Population	47,054	-891	-1.9%	46,798	45,035
Housing Units	21,260	741	3.6%	21,226	-
Households (Occupied Units)	19,553	-423	-2.1	19,435	19,780
Residential Vacancy Rate	8.0%	5.4%	-	8.4%	-
Average Household Size	2.41	0.01	-	2.41	2.28

Economic Conditions 2011/12

Fiscal Year	<u>2011/12</u>	<u>Projected 2012/13</u>
Real Property Taxable Value	\$ 920,446,372	\$ 802,295,021
Personal Property Taxable Value	\$ 104,199,030	\$ 108,653,510
Taxable Value for the City of Roseville	\$1,024,645,402	\$ 910,948,531
Real Property Taxable Value	\$ 505,631,824	\$ 428,540,724
Personal Property Taxable Value	\$ 35,446,570	\$ 35,620,390
Taxable Value for the City of Eastpointe	\$ 541,503,325	\$ 464,161,114

Taxable Value of Property subject to the Authority's authorized one mill levy:	2011/12 \$ 1,566,148,727
Taxable Value of Property subject to the Authority's authorized one mill levy:	2012/13 \$ 1,375,109,645

As evidenced by a reduction in property value to tax at the one mill rate, the challenges of revenue will be a prominent issue for the continuation of operations of the Authority. The authority will adhere to a multi-year financial plan to address the challenges of revenue reduction and increase program income along with seeking additional grant sources.

Major Achievements and Result of Operations for 2011/2012

The first year of the newly formed authority was not without challenges. Some financial challenges will remain in the foreseeable future. Despite the expected and some unexpected “start-up” challenges, there were significant achievements in 2011-2012, with more anticipated in the years ahead.

- Elected the first Chairperson and Vice Chair
- Adopted the Authority By-Laws
- Appointed and approved employment contracts with the Executive Director and Staff Directors
- Authorized the preliminary Architectural review of the Sycamore Center
- Transferred and consolidated Senior Services and staff from the Eastpointe Eight Mile center to the Sycamore center
- Began the research and development of capital financing program seeking legal direction and opinion as to the allowances and capacity of PA 321 authorities
- Negotiated and entered land use agreements with the cities of Roseville and Eastpointe for use of the city parks and playfields at mutual acceptable costs to the Authority
- Established new relationship agreements with the Roseville and Eastpointe School Districts for collaborative programs and joint use of facilities

The Authority in 2011/2012 established several objectives to be accomplished in the the next fiscal year that will have a material impact on services and financial plan including:

- Continue to redefine the organization and improve full cost recovery program objectives
- Develop and adopt a capital equipment and facilities multi-year improvement plan including senior van and handicapped bus services
- Conclude Master Recreation Plan process and adopt the first Recreation Plan for the Authority following public hearings
- Reorganize the SMART-funded senior and handicapped van and bus transportation services and adopt a capital investment plan for equipment

The Reporting Entity and Services Provided

The Authority has defined its financial reporting entity in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB).

Financial Information

Management of the Authority is responsible for establishing and maintaining internal control designed to ensure that the assets of the Authority are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe the Authority's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The Authority adopted a balanced FY 2011-2012 General Fund budget. The Authority contributed \$808,925 to fund balance in FY 2011-2012. The slowdown in the economy, including a loss of nearly 10 percent of taxable property values in both cities, immediately impacted the first Authority budget and will seriously affect the budgets in the future. However, with the implementation of employee benefit controls and reductions in cost for the full-time senior staff and the use of part-time staff following the initial restructuring and new fiscal controls and modifications to programs, the use of fund balance should be avoided for several fiscal years to come. The planning and operation of the physical buildings and facilities of the Authority and possible construction projects will significantly affect the five-year fiscal plan and accordingly each budget year ahead.

The Authority's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgeting Controls

In accordance with state law, the Authority's budget is prepared on the modified accrual basis for governmental-type funds, and its accounting records are also maintained on that basis. Under modified accrual accounting, revenues are recorded when they are both measurable and available. Expenditures are recorded when a liability is incurred, except for interest on long-term debt.

The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Authority's governing body. Activities of the General Fund are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the program unit level for the General Fund. However, for internal accounting purposes, budgetary control is maintained by object class (line account) for all funds. The City of Roseville on behalf of the Authority also maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

To the Board of Trustees, Residents of the
Roseville and Eastpointe Authority Community

December 18, 2012

Purchase orders that would create an over-encumbrance are not written until additional appropriations are available. Encumbered accounts lapse at year end. However, any encumbrances outstanding at June 30, 2012 are reported as reservations of fund balances.

As demonstrated by the statements and schedules included in the financial section of this report, the Authority has met and will continue to meet its financial management responsibilities.

Acknowledgments

The timely preparation of this report could not have been accomplished without the efficient and dedicated services of the staff of the Roseville Controllers Office and our independent auditors, Plante & Moran, PLLC, certified public accountants. We express our appreciation to all members of the city departments we partner with that assisted and contributed to our first year of operation. In closing, without the leadership and support of the Board of Trustees, this report would not have been possible.

Sincerely,

Anthony Lipinski
Executive Director

Independent Auditor's Report

To the Members of the Board
Recreation Authority of Roseville and Eastpointe

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Recreation Authority of Roseville and Eastpointe (the "Authority") as of and for the six months ended June 30, 2012 (its initial period of operations), which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Recreation Authority of Roseville and Eastpointe's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the General Fund of the Recreation Authority of Roseville and Eastpointe as of and for the six months ended June 30, 2012 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Members of the Board
Recreation Authority of Roseville and Eastpointe

The transmittal letter, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Plante & Moreau, PLLC

December 18, 2012

Recreation Authority of Roseville and Eastpointe

Management's Discussion and Analysis

Reviewing the Annual Report

Our discussion and analysis of the Recreation Authority of Roseville and Eastpointe's (the "Authority") financial performance provides an overview of the Authority's financial activities for the six months ended June 30, 2012. Please read it in conjunction with the Authority's financial statements.

Financial Highlights

As management of the Authority, we offer the readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the six month period ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, the financial statements, and the notes to the financial statements. The Authority was incorporated by the City Council of Roseville on August 9, 2011 and the City Council of Eastpointe on August 16, 2011 and operationalized in the November 8 election where voters in both Roseville and Eastpointe approved a levy of one mill (\$1 per thousand of taxable value) by nearly an average of 60 percent yes votes. Funded operations of the Authority began on January 1, 2012. The emphasis of the Authority's first annual budget and Five-Year Plan is to provide senior recreation and transportation services and programs for youth and adult participation. The Authority buildings, acquired at incorporation, are located at 18185 Sycamore in Roseville and 16435 Eight Mile Road in Eastpointe.

Using this Annual Report

This annual report consists of three parts, management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The basic financial statements include information that presents two different views of the Authority:

- The first column of the financial statements includes information on the Authority's Operating Fund under the modified accrual method. This fund financial statement focuses on current financial resources and provides a more detailed view about the accountability of the Authority's sources and uses of these funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method.
- The third column is the government-wide financial statement column. This column provides both long-term and short-term information about the Authority's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

Recreation Authority of Roseville and Eastpointe

Management's Discussion and Analysis (Continued)

These statements tell how the Authority was financed in the short term, as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required information that further explains and supports the information in the financial statements.

Governmental Activities

The following table shows, in a condensed format, the current year's net assets:

	Governmental Activities
Other assets	\$ 1,465,865
Capital assets	<u>3,174,017</u>
Total assets	4,639,882
Current liabilities	326,239
Net assets:	
Invested in capital assets -	
Net of related debt	3,174,017
Unrestricted	<u>1,139,626</u>
Total net assets	<u><u>\$ 4,313,643</u></u>

The Authority's total net assets at June 30, 2012 were \$4,313,643, including approximately \$3.2 million in capital assets contributed by the cities of Roseville and Eastpointe at the Authority's inception. The Authority's governmental revenue totaled \$1,870,699, of which \$1,553,205, or 83 percent, was supported by property taxes levied on both real and personal properties located within the Authority's boundaries. The remaining 17 percent, or \$317,494, was generated from program revenue. The Authority's governmental expenditures totaled \$866,134, of which \$389,830, or 45 percent, is attributed to personnel related expenditures. Program operating supplies, professional services, and administrative fees represent 20 percent of total governmental expenditures or \$171,459. Utilities and building related expenditures also represent 20 percent, or \$169,784, of total expenditures incurred. Depreciation related to the Authority's capital assets comprises the remaining 15 percent, or \$135,061, of total governmental expenditures. At year end, the Authority contributed approximately \$.8 million to its fund balance.

Recreation Authority of Roseville and Eastpointe

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

The Authority's administration monitors and amends the budget to take into account unanticipated expenditures that were incurred during the year. The Authority adopted a balanced budget for fiscal year 2011-2012. The budget was formally amended once for fiscal year 2012. A budgetary comparison statement has been provided herein to demonstrate compliance with this budget. At year end, actual revenue and expenditures were consistent with budgeted amounts. The Authority contributed approximately \$.8 million to its fund balance in fiscal year 2011-2012. As stated earlier, the main objective of the Authority's first annual budget and multi-year plan is to provide senior recreation and transportation services and programs for youth and adult participation. However, the slowdown in the economy, including a loss of nearly 10 percent of taxable property values in both cities, immediately impacted the Authority's first budget and will seriously affect the Authority's budgets in the future. For fiscal year 2013 and beyond, management has developed a comprehensive multi-year financial forecast that will be updated annually as part of the Authority's annual operating budget to ensure adequate financial reserves are maintained.

Capital Asset and Debt Administration

At the end of 2012, the Authority had \$3.2 million invested in capital assets, including land, buildings, and equipment. During fiscal year 2011-2012, the member cities transferred approximately \$3.3 million in net assets to the Recreation Authority of Roseville and Eastpointe. The Authority uses these capital assets to provide recreation services to citizens; consequently, these assets are not available for future spending. At inception, the City Councils of Roseville and Eastpointe committed to contribute real and personal property to the Authority limited to the City of Roseville Recreation Center, 18185 Sycamore, Roseville, MI and the City of Eastpointe Community Center, 16435 Eight Mile Road, Eastpointe, MI. The articles permit any participating municipality to withdraw upon giving one full year's budgetary notice. The articles also address dissolution of the Authority, which requires council resolution from the governing board of the participating communities, at which time all outstanding debt of the Authority is required to be paid in full. Any remaining assets of the Authority would be evenly distributed to the member communities at the time of dissolution. At June 30, 2012, the Authority did not have any bonded debt.

Recreation Authority of Roseville and Eastpointe

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget

The first year of the newly formed Authority was not without challenges. Some financial challenges will remain in the foreseeable future. Funding for the Authority is principally supported by property taxes and program revenue. Unfortunately, for the past four years, property assessments in each community have declined and continued decreases are anticipated for 2013. For fiscal year 2011-2012, taxable value of property subject to the Authority's authorized one mill levy was \$1,566,148,727. For fiscal year 2012-2013, taxable value of property subject to the Authority's authorized one mill levy is assessed at \$1,375,109,645. The challenges of revenue reduction will be a prominent issue for the continued operations of the Authority.

The Authority is pursuing new service-sharing agreements with surrounding communities while seeking additional grant sources to ensure adequate financial reserves are maintained. Through the implementation of staff restructuring and employee benefit controls along with fiscal modifications to programs, the use of fund balance should be avoided for several fiscal years to come. However, the planning and operations of physical buildings and facilities of the Authority, in addition to possible future construction projects, will significantly affect the multi-year fiscal plan and accordingly each budget year ahead.

Contacting the Authority's Management

This financial report is intended to provide our member communities, taxpayers, and potential new members with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Authority directly.

Recreation Authority of Roseville and Eastpointe

Governmental Funds Balance Sheet/Statement of Net Assets June 30, 2012

	Modified Accrual Basis		
	General Fund	Adjustments (Note 2)	Statement of Net Assets
Assets			
Cash and cash equivalents (Note 3)	\$ 1,126,066	\$ -	\$ 1,126,066
Receivables:			
Receivable from City of Roseville	261,746	-	261,746
Receivable from City of Eastpointe	70,456	-	70,456
Prepaid expenses	7,597	-	7,597
Capital assets (Note 5):			
Assets not subject to depreciation	-	815,030	815,030
Assets subject to depreciation	-	2,358,987	2,358,987
Total assets	<u>\$ 1,465,865</u>	<u>\$ 3,174,017</u>	<u>\$ 4,639,882</u>
Liabilities			
Accounts payable	\$ 9,730	\$ -	\$ 9,730
Expense reimbursement - City of Roseville	226,797	-	226,797
Expense reimbursement - City of Eastpointe	89,712	-	89,712
Deferred revenue (Note 4)	330,701	(330,701)	-
Total liabilities	<u>656,940</u>	<u>(330,701)</u>	<u>326,239</u>
Equity			
Fund balance:			
Nonspendable - Prepaids	7,597	(7,597)	-
Unassigned	801,328	(801,328)	-
Total fund balance	<u>808,925</u>	<u>(808,925)</u>	<u>-</u>
Net assets			
Invested in capital assets - Net of related debt		3,174,017	3,174,017
Unrestricted		1,139,626	1,139,626
Total net assets		<u>4,313,643</u>	<u>4,313,643</u>
Total liabilities and equity	<u>\$ 1,465,865</u>	<u>\$ 3,174,017</u>	<u>\$ 4,639,882</u>

Recreation Authority of Roseville and Eastpointe

Statement of Activities/Governmental Fund Revenue, Expenditures, and Changes in Fund Balance Period from January 1, 2012 to June 30, 2012

	Modified Accrual Basis		
	General Fund	Adjustments (Note 2)	Statement of Net Assets
Revenue			
Taxes	\$ 1,484,642	\$ 68,563	\$ 1,553,205
Charges for services to external parties	55,356	262,138	317,494
Total revenue	1,539,998	330,701	1,870,699
Expenditures/Expenses - Recreation and Culture			
Salaries	309,795	-	309,795
Fringe benefits	80,035	-	80,035
Operating supplies and sundry	52,277	-	52,277
Professional fees, administration fees, training, and other	119,182	-	119,182
Utilities, maintenance, and improvements	169,784	-	169,784
Depreciation expense	-	135,061	135,061
Total expenditures/expenses	731,073	135,061	866,134
Excess of revenues over expenditures	808,925	195,640	1,004,565
Fund Balances/Net Assets - Beginning of period (Note 5)	-	3,309,078	3,309,078
Fund Balances/Net Assets - End of period	\$ 808,925	\$ 3,504,718	\$ 4,313,643

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2012

Note I - Summary of Significant Accounting Policies

The accounting policies of the Recreation Authority of Roseville and Eastpointe (the "Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority is governed by a five-member board. Two members are appointed by the City Council of each participating member community. A neutral fifth member is appointed by the other four members. The Authority constructs, operates, maintains, and/or approves recreational facilities and provides recreational services to the participating cities of Roseville and Eastpointe. Revenue is derived principally from a property tax levy on each participating community.

In January 2012, the City of Roseville and the City of Eastpointe created the Authority, which is responsible for the construction, operation, and maintenance of recreation facilities within the two communities. The Authority was created as a result of the residents in both communities approving a one mill tax levy. As part of the creation of the Authority, the member communities transferred \$3,309,078 in capital assets to the Authority, which are valued at carrying value as of the date of donation. As part of the agreement, the individuals providing services remained employees of the member communities and the Authority reimbursed the members for the wage and benefit costs.

Government-wide and Fund Financial Statements

The Authority's basic financial statements include both government-wide (reporting the Authority as a whole) and fund financial statements (reporting the Authority's sole fund, the General Fund). The government-wide statements (the statement of net assets and the statement of activities) report the cost of providing services in any one year, and the extent to which the participating members have paid the full cost of government services. The fund financial statements are intended to show accountability for how the current financial resources have been managed during the year.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2012

Note I - Summary of Significant Accounting Policies (Continued)

General Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenue to be available if it is collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

The Authority reports all activity in a single fund, the General Fund. It accounts for all financial resources of the Authority.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the Authority's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Authority's policy to spend funds in this order: committed, assigned, and unassigned.

Property Tax Revenue

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Properties are assessed as of December 31 of each year. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are due by September 1 with the final collection date of February 28. Taxes are considered delinquent on March 1, at which time penalties and interest are assessed.

The Authority's 2011 tax is levied and collectible July 1, 2011 and is recognized as revenue in the year ending June 30, 2012, when the proceeds of the levy are budgeted and available for the financing of operations.

The current year taxable valuation of the Authority totaled \$1.569 billion, on which taxes levied consisted of 1.0000 mill for the recreation authority. This resulted in \$1.553 million for the recreation authority, which is recognized in the respective General Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits - Cash and cash equivalents include cash on hand and demand deposits.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Amounts due from member communities represent tax and fee collections which were owed to the Authority. No allowance for uncollectible accounts is deemed necessary on the other accounts receivable as management believes all accounts are collectible. Amounts due to the member communities represent reimbursements for expenses paid on behalf of the Authority.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation on all assets is provided using the straight-line method over the following useful lives:

Buildings and building improvements	20 years
Machinery and equipment	5 to 7 years

Fund Equity - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been restricted, committed, or assigned to specific purposes in the General Fund.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2012

Note 2 - Reconciliation of Individual Fund Columns of the Statement of Net Assets/Statement of Activities

Net assets reported in the statement of net assets column are different than the fund balance reported in the individual fund column because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

Fund Balance Reported in Governmental Funds	\$ 808,925
--	-------------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	3,174,017
--	-----------

Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	<u>330,701</u>
---	----------------

Net Assets of Governmental Activities	<u>\$ 4,313,643</u>
--	----------------------------

The change in net assets reported in the statement of activities column is different than the change in fund balance reported in the individual fund column because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

Net Change in Fund Balances - Total Governmental Funds	\$ 808,925
---	-------------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation Depreciation expense	 (135,061)
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Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	 <u>330,701</u>
--	--------------------

Change in Net Assets of Governmental Activities	<u>\$ 1,004,565</u>
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Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2012

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade, and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

As of June 30, 2012, the Authority did not have any cash available in its bank account and \$1,126,066 in a sweep account with the City of Roseville. Outstanding checks and future liabilities are expected to be covered through funding from the City of Roseville until cash is available to the Authority.

The Authority's cash and investments are subject to two types of risk which are examined in more detail below:

Custodial Credit Risk of Investments

Custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy for custodial credit risk. At year end, \$1,126,066 of investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2012

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Repurchase agreement (Sweep)	<u>\$ 1,126,066</u>	Not rated	N/A

Note 4 - Deferred Revenue

The governmental fund reports deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. The governmental fund also defers revenue recognition in connection with resources that have been received but not yet earned. The amounts below were being held by the cities of Eastpointe and Roseville and were not considered available under modified accrual accounting as of June 30, 2012. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>General Fund - Modified Accrual Unavailable</u>
Delinquent property taxes	\$ 68,563
Member reimbursements	<u>262,138</u>
Total	<u>\$ 330,701</u>

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2012

Note 5 - Capital Assets

Capital asset activity of the Authority's governmental activities was as follows:

Governmental Activities	Balance January 1, 2012	Additions	Disposals	Balance June 30, 2012
Capital assets not being depreciated - Land	\$ 815,030	\$ -	\$ -	\$ 815,030
Capital assets being depreciated:				
Buildings and improvements	2,230,843	-	-	2,230,843
Machinery and equipment	263,205	-	-	263,205
Subtotal	2,494,048	-	-	2,494,048
Accumulated depreciation:				
Buildings and improvements	-	110,871	-	110,871
Machinery and equipment	-	24,190	-	24,190
Subtotal	-	135,061	-	135,061
Net capital assets being depreciated	2,494,048	(135,061)	-	2,358,987
Net capital assets	\$ 3,309,078	\$ (135,061)	\$ -	\$ 3,174,017

Total depreciation for the year ended June 30, 2012 is \$135,061.

The Authority received contributions of capital assets from the member communities in order to start operations. The members contributed \$3,309,078 in capital assets, which are valued at carrying value as of the date of donation. The contributed assets have been recorded as beginning net assets in the statement of activities.

Note 6 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. Through June 30, 2012, the Authority was covered by for all risks of loss by the member communities. Subsequent to year end, the Authority purchased commercial insurance for workers' compensation and medical benefit claims and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to general liability and property loss claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2012

Note 6 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

Note 7 - Upcoming Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the Authority's 2012-2013 fiscal year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Authority's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net position. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Authority for the 2013-2014 fiscal year.

Required Supplemental Information

Recreation Authority of Roseville and Eastpointe

Required Supplemental Information Budgetary Comparison Schedule - General Fund Period from January 1, 2012 to June 30, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes	\$ 1,568,000	\$ 1,484,642	\$ 1,484,642	\$ -
Charges for services to external parties	172,350	55,356	55,356	-
Investment income	7,840	-	-	-
Total revenue	1,748,190	1,539,998	1,539,998	-
Expenditures/Expenses				
Salaries	339,940	309,795	309,795	-
Fringe benefits	98,608	80,035	80,035	-
Operating supplies and sundry	46,750	52,277	52,277	-
Professional fees, administration fees, training, and other	995,642	119,182	119,182	-
Utilities, maintenance, and improvements	267,250	169,784	169,784	-
Total expenditures/expenses	1,748,190	731,073	731,073	-
Excess of Revenue Over Expenditures	-	808,925	808,925	-
Fund Balances / Net Assets - Beginning of year	-	-	-	-
Fund Balances / Net Assets - End of year	<u>\$ -</u>	<u>\$ 808,925</u>	<u>\$ 808,925</u>	<u>\$ -</u>

Recreation Authority of Roseville and Eastpointe

Note to Required Supplemental Information Year Ended June 30, 2012

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2012 has not been calculated. The annual budget is prepared and adopted by the Authority's members; subsequent amendments are approved by the Authority members. During the current year, the budget was amended in a legally permissible manner except that the final budget amendments were approved subsequent to June 30, 2012. The impact of the amendment subsequent to year end on the total budgeted revenue and expenditures is shown in the table below.

The budget statement (statement of revenue, expenditures, and changes in fund balance - budget and actual - General Fund) is presented in accordance with accounting principles generally accepted in the United States of America, which is the same basis of accounting used in preparing the adopted budget. The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted is included in the required supplemental information.

	Original Budget	Amended Budget	Variance
Revenue	\$ 1,748,190	\$ 1,539,998	\$ 208,192
Expenditures	1,748,190	731,073	1,017,117

December 18, 2012

To the Members of the Board
Recreation Authority of Roseville and Eastpointe

We have audited the financial statements of the Recreation Authority of Roseville and Eastpointe (the "Authority") as of and for the year ended June 30, 2012 and have issued our report thereon dated December 18, 2012. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under SAS 115

Section II - Communications Required Under SAS 114

Section III - Other Recommendations

Section I includes any deficiencies we observed in the Authority's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the Authority's accounting policies and internal control.

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the members of the board of the Recreation Authority of Roseville and Eastpointe.

Section III presents recommendations related to internal control and procedures noted during our current year audit. These comments are offered in the interest of helping the Authority in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

We would like to take this opportunity to thank the Authority's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the members and management of the Recreation Authority of Roseville and Eastpointe and is not intended to be and should not be used by anyone other than these specified parties.

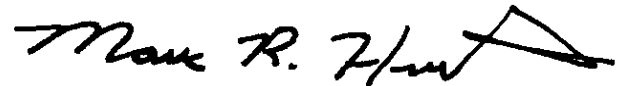
To the Members of the Board
Recreation Authority of Roseville and Eastpointe

December 18, 2012

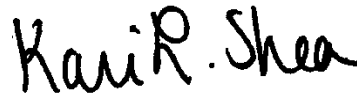
We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Mark R. Hurst". The signature is written in a cursive style with a large, stylized "H" at the end.

Mark R. Hurst

A handwritten signature in black ink that reads "Kari R. Shea". The signature is written in a cursive style with a large, stylized "S" at the end.

Kari L. Shea

Section I - Communications Required Under SAS 115

In planning and performing our audit of the financial statements of the Recreation Authority of Roseville and Eastpointe as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

We consider the following deficiency in the Authority's internal control to be a material weakness:

- The amount reported as initial capital contributions was overstated due to an undetected clerical error.

Section II - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 17, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Recreation Authority of Roseville and Eastpointe. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on December 7, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note I to the financial statements.

As described in Note 5, the Authority complied with accounting policies related to the contributions of inventory and capital assets from the member communities in order to start operations. Accordingly, the carrying value of the contributed assets has been retrospectively applied to beginning net assets.

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus except for the recording of the contribution of assets by the member communities, for which the Governmental Accounting Standards Board Exposure Draft on Government Combinations and Disposals of Government Operation was relied on.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements related to MTT (Michigan Tax Tribunal) liabilities. Management's estimate of the MTT liability is based on the prior history of the member communities settling MTT cases. We evaluated the key factors and assumptions used to develop the MTT liability in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements as described in Section I of this letter.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 18, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Section III - Other Recommendations

During our audit, we noted areas where we believe there are opportunities for the Authority to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented for your consideration below.

As part of our audit procedures, we noted that the Authority has many policies in place based on those policies followed by the member communities. Some of these policies include an investment policy, purchasing policy, capitalization policy, and fund balance policies. We would like to encourage the Authority to formalize these policies as its own. Furthermore, we recommend that entities who commonly accept cash receipts and checks at remote locations draft written policies and procedures to govern the cash receipt and registration procedures.

As indicated in the notes to required supplemental information, the Authority approved the final budget amendments subsequent to June 30, 2012, which is not in accordance with State requirements. We recommend that the Authority approve final budget amendments prior to year end.